

Internal Service Funds - Overview

FIACCT 12-00.00

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Purpose

- A. This policy defines the policy of the Department of Administrative Services for the establishment and operation of Internal Service Funds (ISFs).
- B. The policy also outlines the procedures used in accounting for ISFs.

Policy

- A. *Establishment Approval* – The Director of Finance, the Director of Administrative Services, and the Utah State Legislature must approve all new ISFs.. See the **Internal Service Fund – Establishing** policy for more information.
- B. *Cost Recovery* – The full costs of providing services should be charged to consumers. ISFs should use generally accepted accounting principles and costing practices to determine full costs. ISFs should be operated close to a break-even basis, so that revenues do not exceed expenses and expenses do not exceed revenues. The break-even analysis should include sufficient revenues to cover replacement of capital assets.
- C. *Self Sufficiency* – Each ISF should be self-supporting. If additional funds are required for the expansion of ISF services, the funds should be obtained through the legislative process.
- D. *Fund Contributions* – The Legislature must authorize all fixed asset or fund transfers from another fund to an ISF or from an ISF to another fund. For guidelines on how to record a fixed asset transfer, see the **Internal Service Funds – Fixed Asset Acquisition** policy. Any transfer appropriated from another fund to an ISF for capital purposes will increase the ISF's contributed capital.
- E. *FINET Accounting* – All assets, liabilities, fund equities, revenues, and expenses will be accounted for on the FINET accounting system according to generally accepted accounting principals. Any subsidiary system used to record asset, liability, or other detail information will be considered a secondary system and should be balanced with FINET. The FINET accounting system is the official record for the State. All ISFs must reconcile to FINET.

- F. *Fund Termination* – The Division of Finance will evaluate an ISF for termination in cases where accounting for operations as an ISF appears to have become impractical. If the fund is terminated, the assets will be transferred back to the agency that made the original asset contribution or to the General Fund if the original agency cannot be identified.. See the **Internal Service Funds – Terminating Data Processing ISFs** policy for more information regarding terminating these types of ISFs.

Background

- A. ISFs account for the operation of state agencies that provide goods or services to other state agencies and governmental units on a cost reimbursement basis.
- B. ISFs are accounted for on an economic resources measurement focus using the accrual basis of accounting. These funds are designed to accumulate the revenues and expenses (including depreciation and overhead) associated with providing a specific service.